



Committee On Finance

Max Baucus, Ranking Member

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“The Virtues of Trade”

Some 2,250 years ago, the philosopher Xun Zi extolled the virtues of China’s trade:

“In the far north, there are fast horses and howling dogs; China acquires and breeds them and puts them to work. In the far south, there are feathers, tusks, hides, pure copper, and cinnabar; China acquires them and uses them in its manufactures. In the far east, there are plants with purple dye, coarse hemp, fish, and salt; China acquires them for its food and clothing. In the far west, there are skins and colored yak’s tails; China acquires them for its needs.

“Thus the people living in the lake region have plenty of lumber, and those living in the mountains have plenty of fish. The farmers do not have to carve or chisel, to fire or forge, and yet they have all the tools and utensils they need. The artisans and merchants do not have to work the fields, and yet they have plenty of vegetables and grain. . . . That is what is called a state of godlike order.”

Today, the virtues of China’s trade are as evident as ever. The commodities have changed in the last 2,250 years. But China’s commercial reach continues to the four points of the compass.

From the north, China acquires iron, wood, and fuels from Russia. From the south, China acquires nickel from Australia. From the west, China acquires chemicals, printing machinery, and vehicles from Germany. And from the east, China acquires integrated circuits, semiconductors, and computer parts from the United States, Japan, and Korea.

And, in turn, China sends computers, TVs, and sewing machines to Asia, Europe, and the United States. China sends auto parts to the U.S., Canada, Japan, Mexico, and increasingly to Asia. And China sends textiles and shoes to the U.S. and Europe.

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This burgeoning trade allows consumers in the U.S. and China alike to benefit from plentiful supplies of goods. Freer trade generally has increased U.S. national income by nearly \$1 trillion a year. Freer trade has increased the average U.S. household's income by nearly \$10,000 a year. Freer trade with China alone saves U.S. households \$600 each year.

And the engine of freer trade helps drive the world's economy. A week ago, the Chinese state planning agency reported that China's economy grew by 9.8 percent last year. And the latest numbers show that the U.S. economy grew by about 4 percent last year. In some recent years, China and the United States have accounted for more than 40 percent — nearly half — of the entire world's economic growth.

This economic growth has lifted millions out of poverty. It made more food, goods, and services newly available to millions of people. And it has helped to contribute to world stability and wellbeing.

I am a friend of freer trade. I stand before you today, a former Chairman — and God willing, a future Chairman — of the U.S. Senate Finance Committee, in large part because of my interest in international commerce.

And I am — and have long been — a friend of China. And my friendship with China and my interest in international trade stretch back some 43 years ago.

It was 1963. Charles De Gaulle vetoed the United Kingdom's entry into the European Economic Community. The Kennedy Administration banned U.S. travel to Cuba. Kenya became independent.

I was a student at Stanford University. I wanted to learn more about other countries. But I did not get as much out of Stanford's tour of Paris as I had hoped. So I decided to travel around the world. Among other places, I came to Hong Kong. I remember that first trip fondly to this day.

I credit that trip with my coming to work in the United States Government. That trip had a lot to do with why I became the Chairman and now the Ranking Minority Member of the Senate's Finance Committee. I recognized then that this is one world. And it is getting smaller. And we have all got to learn to live together. And no one nation has a monopoly on virtue or morality or religion. And so I decided that I wanted to go into public service. And I decided that I wanted to help people to get along.

In the 43 years since, I have continued to be a friend of U.S.-China relations. In the early 1990s, I fought for the United States to end the process by which it annually reviewed China's Most Favored Nation trade status — what we now call Permanent Normal Trade Relations. Along with a handful of other Democrats, I signed a letter along with Republican Leader Robert Dole to the first President Bush saying that we would support his veto of legislation to withdraw China's Most Favored Nation status. And I worked to help defeat that legislation.

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I was a Congressional Leader on China's joining the World Trade Organization. I urged the first Bush Administration and the Clinton Administration to set an aggressive agenda and move forward. In that effort, I included a particular focus on key agriculture issues. I remember discussing China with President Clinton in the private residence of the White House. I told him that the United States had to treat China with the deference and respect due another major power.

And I was a Congressional Leader on legislation to provide Permanent Normal Trade Relations to China in 2000.

In the course of this relationship, I have met with President Jiang Zemin and Premier Zhu Rongji. And I am enjoying an excellent round of meetings with the current administration.

I am pleased that our relationship with China is maturing. I believe that when future historians write about the 21st century, they will write largely about the relationship between China and the United States, and that relationship's effect on the rest of the world. It is important that the United States and China be friends. Where we differ, we should work constructively, in the right way. In the Analects of Confucius, the Master said: "To attack a task from the wrong end can do nothing but harm."

China is a dynamic world power. China will likely become the world's largest economy within a matter of some few decades. China's influence in Asia and the world is on the rise.

Now some in the United States may view ascendant China as a threat. Some may view China as a power that needs containment. And some may have argued that the United States must threaten to raise tariffs on China to get China to allow its currency to float.

I believe that these voices call for us "to attack a task from the wrong end." I believe that this course would "do nothing but harm."

China is a sovereign country. China has its own interests, just like any other country. The United States should not perceive China as a threat. Instead, the United States should recognize China for what it is — a very large country trying to develop quickly, while maintaining social stability.

I do not believe that China has hostile intentions toward its neighbors. The leaders of China are astute enough to devote their time and energy to China's internal challenges. I believe that China has watched the post-war development of Japan, Germany, and Korea. I believe that China has drawn the conclusion that economic growth is the surest and most durable path to power and prestige.

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In September, Premier Wen gave a speech in which he said that China poses no threat to other countries. Premier Wen said that China has no intention to seek hegemony. In December, the Chinese government published a foreign policy white paper reiterating that China has no desire for confrontation. The paper cited China's need for foreign trade and peaceful international relations to continue to develop.

That white paper fits neatly with the argument that U.S. Deputy Secretary of State Zoellick made in New York City in September. Secretary Zoellick argued that China should become more of a "stakeholder" in the international system. China has derived much benefit from the international system. China should work to strengthen it. And I associate myself with Secretary Zoellick's remarks.

Yes, there is some anti-China sentiment in Congress. But there are many of us in Congress who want to work for a more rational policy toward China. To achieve that more rational policy, China must recognize that it can help to shape America's perceptions of China. And China can do this by taking steps that from my perspective also appear to be in China's own self-interest.

I am not a protectionist. But I am also not an apologist. In the spirit of constructive friendship, let me suggest several steps that China could take that would further its own interests. At the same time, these steps would advance China's relations with the United States.

China can take steps to reduce its trade deficit with the United States. China can move more rapidly to revalue its currency to reflect its value on the market. China can further advance financial services liberalization. China can foster greater domestic demand for goods and services.

China needs to address intellectual property issues more aggressively. Piracy and counterfeiting are at unacceptable levels. They must come down significantly.

China's leaders must hear this all the time, from every American official who visits, elected or appointed. Let me explain why. China's comparative advantage in international trade rests largely in its low labor costs. These make China a fierce competitor in the global marketplace. America finds its comparative advantage largely in its strong culture of innovation. And the way to capture the value of innovation is through intellectual property.

China has taken some steps in the right direction. For instance, last July, it committed to use legitimate software in all government offices by the end of 2005 and in all state-owned businesses by the end of 2006. This is a good move. It provides a concrete benchmark by which China can demonstrate progress in protecting intellectual property rights. But it is only a step. Much more work must be done on enforcement of intellectual property rights, and I hope to see more tangible progress soon.

There are also questions about China's compliance with other WTO commitments. I urge China to continue its efforts to implement these obligations in a timely manner. Included in those commitments, China needs to rely on sound science as the basis for animal and plant health measures. It should not restrict agricultural imports on non-science-based grounds. It should end its ban on imports of U.S. beef.

And I hope China will ensure that regulatory procedures do not undermine market access in key services sectors, like telecommunications, distribution, and banking.

This is tough work for China. But it is also difficult for the United States. We need to do a better job of monitoring and enforcing China's trade commitments. To do so, I urge my government to detail more trade experts to our embassy in Beijing -- dedicated to trade compliance and enforcement.

China can also broaden democracy, moving up from local levels. China can reform its judiciary and increase respect for the rule of law. China can open its government and increase freedom of the press.

Each of these steps will help China. Because of China's new role in the world economy, it has an interest in having a more liberal economy with a more adaptable currency. It has an interest in keeping trade imbalances from leading to precipitous rebalancing.

With its economy growing at rates in excess of 9 percent, further liberalization will be unlikely to cause disruption. And liberalization will yield benefits in added economic opportunity for the Chinese people. And China has shown signs that it understands that its interests lie in greater liberalization.

China has taken some noteworthy steps in recent months to liberalize capital flows, strengthen its financial system, and move toward a market-based exchange rate regime. Taken together, these reforms create positive momentum and encourage bolder action in the future. China will benefit itself if it takes further steps along that road.

And when China takes such steps to further liberalize, it will help those of us in the U.S. Congress who wish to avoid pursuing relations with China "from the wrong end." U.S. politics on China will become unmanageable if China's trade deficit with the U.S. continues to grow. All indications are that the deficit last year exceeded \$200 billion. That is a 25 percent increase over the previous year. And that is nearly 30 percent of the total U.S. trade deficit.

I am not seeking to fix blame for the trade imbalance. The imbalance exists. And it is an irritant in U.S.-China relations. It is in China's interests to make concrete progress in reducing the trade imbalance.

Otherwise, Washington may take measures to reduce the trade imbalance by reducing Chinese exports to the United States. And that is an outcome in neither party's interest. That would be "attacking a task from the wrong end."

China is a responsible power. China benefits from the peaceful economic system. Trying to address challenges from the right end is what responsible powers do.

Let me acknowledge that the United States has steps that it must take, as well, to help reduce the trade deficit. We must reduce our federal budget deficit. We must reduce the drain that government borrowing puts on financial markets. I believe that the United States is again turning the corner on fiscal policy. And I will join in that effort.

Our two economies are linked. China is the United States' third largest trading partner, after Canada and Mexico. Last year, China was our second largest source of imports. Last year, China was our fifth largest export market.

And as Secretary Zoellick said, China "does not seek to spread radical, anti-American ideologies." China "does not see itself in a twilight conflict against democracy around the globe." China "does not see itself in a death struggle with capitalism." "And most importantly, China does not believe that its future depends on overturning the fundamental order of the international system. In fact, quite the reverse."

China has benefited mightily from the world's open, rules-based international economic system. The U.S. market is central to China's continued success. And U.S. businesses look to millions of Chinese consumers as an economic engine of this century.

Seven U.S. presidents have now come to view positive relations with China as central to American foreign policy. Generations of U.S. leaders have worked to help integrate China as a full member of the international system.

We are economic partners. We share interests in a non-nuclear Korean peninsula. We share a common concern with radical terrorists. We share interests in lifting people out of poverty. And we share interests in combating global disease.

The alternative to cooperation is simply to "attack a task from the wrong end." The alternative to cooperation would "do nothing but harm."

I can sum up the United States interest in China with a quote from another economic philosopher, the late U.S. Senator from Montana, Mike Mansfield. Mike studied Asia before most did in America. And in World War II, in 1943, he said: "We must realize just how much we need China, and we must not forget our future lies, in large part, in the Pacific."

I want to thank the U.S.-China Business Council and the AmCham China for this opportunity to speak. Thank you for efforts to assist firms entering China to do business. Thank you for your efforts to advance the interests and needs of U.S. firms doing business here. Thank you for your cooperation over the years. And thank you for your continued good work on navigating U.S.-China trade policy.

Together, let us continue to work to ensure that the benefits of freer trade can be enjoyed by the people of both China and the United States. Let us help to ensure that China and the United States pursue our relationship from the right direction, as responsible powers do. And let us work for our common future, together, on the Ocean called "Pacific."